

**Commonwealth of Kentucky
Department of Revenue**

**Handbook for Electronic Filers of
Individual Income Tax Returns**

Tax Year 2005



Publication KY-1345
Revised October 2005

Kentucky Dept of Revenue
Electronic Filing



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What's New for Tax Year 2005

STANDARD DEDUCTION—For 2005, the standard deduction is increased to \$1,910.

RETIREMENT INCOME—For 2005, the retirement income exclusion is increased to \$41,110. For future years, the exclusion will remain at the current level, \$41,110.

FOREIGN INCOME TAX DEDUCTION -- KRS 141.010(11) is amended to eliminate the foreign income tax deduction effective for taxable years beginning after December 31, 2004. This provision is permanent, subject to future actions by the General Assembly.

INTERNAL REVENUE CODE—Kentucky's income tax law is based on the Internal Revenue Code in effect December 31, 2004, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2004, that would otherwise terminate, and as modified by KRS 141.0101, except that for property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed, and including the provisions of the Military Family Tax Relief Act of 2003, Pub. L. No. 108-121, effective on the dates specified in the Act.

HOUSE BILL 272

This year the Kentucky Legislature passed a major tax modernization package (HB 272) on March 18, 2005, that included numerous changes to the calculation of individual income tax. Our primary tax forms have been redesigned and several new forms have been made eligible for electronic filing.

New forms eligible for electronic filing are: Schedule J (Kentucky Farm Income Averaging); Form 4972K (Kentucky Tax on Lump-Sum Distributions); Form 8582K (Kentucky Passive Activity Loss Limitations); and Form 8863K (Kentucky Education Tuition Tax Credit).

The passing of House Bill 272 resulted in the following changes for the 2005 tax year:

Rate Reduction-The tax rate for income between \$8,000 and \$75,000 is reduced to 5.8 percent, with income over \$75,000 continuing to be taxed at 6 percent.

Family Size Tax Credit-The family size tax credit replaces the low-income credit. This credit provides benefit to individuals and families at incomes up to 133 percent of the federal poverty level. The 2005 threshold amount is \$9,570 for a family size of one, \$12,830 for a family of two, \$16,090 for a family of three and \$19,350 for a family of four or more.

Phase II Tobacco Payments-State funds that may be paid out as an addition to or replacement of Phase II tobacco payments is exempt from individual income tax. This should be taken as a Schedule M other subtraction.

Tobacco Quota Buyout-Proceeds from a national tobacco buyout are exempt from Kentucky income tax. This should be taken as a Schedule M other subtraction.

Kentucky Education Tuition Tax Credit-A Kentucky credit is allowed equal to 25 percent of the eligible amount allowed at the federal level for education credits. The credit applies only to undergraduate studies, phases out for higher incomes, and applies to most higher education opportunities within Kentucky.

Health Savings Accounts-As a part of the Internal Revenue Code update, Kentucky allows the same tax advantages currently available at the federal level for health savings accounts. Benefits include permitting pre-tax treatment of contributions to health savings accounts, and more potential uses of funds than are allowed with flexible spending accounts.

Schedule TC-This schedule has been eliminated. The credits are now deductible on the Form 740, Section A, Business Incentive and Other Tax Credits. For electronic filers, this means that all credits listed in Section A are now eligible to be filed electronically.

Note: In order to claim credit for tax paid to another state and/or the nonrefundable Kentucky corporation tax credit, the electronic record must contain a worksheet for verification of these credits. Make sure your software package supports these worksheets electronically before electronically filing returns with entries in these fields. If your software package does not support these worksheets electronically, you must file by paper method including supporting documentation for credit verification.

Breast Cancer Research and Education Trust Fund-Taxpayers may now contribute all or a portion of their individual refund to The Breast Cancer Research and Education Trust Fund. The fund replaces the Bluegrass State Games and U. S. Olympic Committee Fund on the Kentucky Individual Income Tax Returns.

New Business Incentive Tax Credits—The following business incentive credits were passed by the 2005 Kentucky General Assembly and will be included on Form 740:

Nonrefundable Kentucky Corporation Tax Credit (KRS 141.420(3))—Partners, members and shareholders of PTEs taxed as corporations are entitled to a nonrefundable credit under KRS 141.420(3) for the tax paid by the PTE under KRS 141.040. The credit is limited to the tax savings if the income taxed on the corporation's return is omitted on the individual's return, or the proportionate share of tax paid by the entity less the required minimum tax of \$175, whichever is less. The limitation is calculated separately for each PTE. If the PTE passes through a loss, the individual tax limitation is zero.

Refundable Kentucky Corporation Tax Credit (KRS 141.420(3)(c))—For taxable years beginning after December 31, 2004, and before January 1, 2007, the portion of credit that represents 1 percent of the entity's taxable income in excess of \$216,600 shall be refundable. The PTE shall compute and report the amount of nonrefundable and refundable credit available to the partners, members or shareholders.

Historic Preservation Restoration Credit—Allows a credit against corporation or individual income taxes for a portion of the cost of restoring a qualified residential and commercial structure listed on the National Registry of Historic Places. The credit is equal to 30 percent of the rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the rehabilitation expenses, in the case of all other property. The total credit available is capped at \$3 million annually, with each individual owner-occupied property receiving no more than \$60,000. More information is available at www.heritage.ky.gov or by calling (502) 564-7005.

Voluntary Environmental Remediation Credit (Brownfields) - Taxpayers who agree to clean up or develop an existing abandoned brownfield area may qualify for a credit against corporation or individual income taxes in a maximum amount of \$150,000. Contact the Natural Resources and Environmental Protection Cabinet at (502) 564-3350 for additional information.

Biodiesel Credit—Credits may be taken against corporation or individual income taxes for producing or blending biodiesel fuels of up to \$1 per gallon produced or blended, limited to a maximum statewide credit of \$1.5 million. The credit may not be carried forward. Contact the Department of Revenue, Corporation Tax Section at (502) 564-8139 for information.

Reminders from Tax Year 2004

- 1) Form 8453-K does **NOT** need to be mailed to the Kentucky Department of Revenue (KDOR). When this form is required, please keep a signed copy in your files for a period of three years.
- 2) Kentucky will again accept state-only returns for the tax year 2005. We will not accept state-only returns for part- year residents or nonresidents.
- 3) Taxpayers can pay their 2005 Kentucky individual income tax by MasterCard or VISA credit card through April 17, 2006. Access the Kentucky Department of Revenue's home page (<http://revenue.ky.gov>) to make credit card payments over the Internet. Click on the KY E-Tax logo, scroll down the page and click on *E-Payments*. If a taxpayer does not have access to the Internet, you may call KDOR at (502) 564-4581. To make a credit card payment, the following information is needed: credit card type and number, expiration date and the cardholder's address as it appears on the credit card billing statement.
- 4) Direct Debit is another payment option for an electronically filed return. **The payment must be the amount due as indicated on the return.** A date up to April 17, 2006 can be elected for the payment to be debited from the specified account. After April 17, the payment will be debited when the return has completed processing. The direct debit payment is only being offered on returns filed electronically. If you elect to have your payment withdrawn on April 17, 2006, please allow 2 weeks for processing of that payment. It **WILL** be considered a timely payment.
- 5) The 100 percent deduction for health insurance premiums paid does **not** include premiums paid using pretax dollars. Some software packages make no mention of this and the taxpayers are entering all premiums, including those paid by employers using pretax dollars. Please make sure the taxpayer is aware of which premiums are deductible.
- 6) Kentucky accepts all federal extensions. If a federal extension has been filed, please set the indicator to 'yes' so that Kentucky will not send a tax due bill with penalties and interest added. The 'trigger' for this action is in the federal forms. Federal Form 4868 is now an automatic extension for 6 months. Kentucky adopted this change.

Section 1

Kentucky Electronic Filing Calendar

For Taxable Period beginning January 1, 2005, and ending December 31, 2005

Begin Federal/State Software Testing	November 9, 2005
State testing for software developers is to begin after the developers have been accepted by the IRS.	
Begin Transmitting Returns to IRS/KDOR.....	January 13, 2006
Last Day to Transmit Kentucky Returns Electronically	October 16, 2006
All fed/state rejected returns must be re-transmitted by.....	
	October 20, 2006

NOTE: These dates are subject to change at any time.

Section 2

Introduction

The Kentucky Department of Revenue (KDOR) joined with the Internal Revenue Service (IRS) in 1994 to offer electronic filing of federal and state individual income tax returns. The Federal/State Electronic Filing Program allows taxpayers to file both their federal and state returns electronically through their tax preparer. This program is an effort to provide “one-stop shopping” for all tax preparation and filing. Taxpayers, tax practitioners and KDOR benefit from electronic filing.

The program was offered to all Kentucky taxpayers during the 2005 filing season, with nearly 860,000 returns being received to date. This represents an increase of 8 percent from 2004.

IRS Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, regulations and requirements governing tax preparers, transmitters, and originators of returns put forth by the IRS are used by KDOR.

Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, is to be used in conjunction with IRS Publication 1345. The Kentucky Handbook sets forth those items that are unique to KDOR. Because most functions in the Federal/State Electronic Filing Program are the same, this handbook highlights the special features for Kentucky. The information contained herein explains the program, including changes from last year.

If there are any questions, comments or suggestions on this handbook, please contact the:

Kentucky Department of Revenue

Primary Contact

Judy Ritchie, Electronic Filing Coordinator
1266 Louisville Rd
P.O. Box 1231, Station 29
Frankfort, Kentucky 40602-1231
(502) 564-5370
Fax (502) 564-9897
E-Mail address: Judy.Ritchie@ky.gov

Secondary Contact

Teresa Gardner, Manager
(502) 564-9329
E-Mail address: Teresa.Gardner@ky.gov

Technical Support and Software Questions

Primary Contact

Marcus Deaton II
(502) 564-4581 Ext. 4621
E-Mail address: Marcus.Deaton@ky.gov

Secondary Contact

Peggy Barber
(502) 564-4581 Ext. 4672
E-Mail address: Peggy.Barber@ky.gov

Section 3

Publications

The following publications describe the process of electronic filing and federal/state electronic filing:

Internal Revenue Service Publications

Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns

Publication 1346, Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns

Publication 1436, Test Package for Electronic Filing of Individual Income Tax Returns

Publication 1545, The Electronic Filing Logo Guidelines for Effective Use

Kentucky Department of Revenue Publications

Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns

Publication KY-1346, Kentucky Software Developer's Guide

Publication KY-1436, Kentucky Test Package

Forms and publications are also available on the internet at <http://revenue.ky.gov>

Section 4

Federal/State Electronic Filing

General Information

Tax preparers and transmitters accepted in the IRS Electronic Filing Program will be able to participate in the Federal/State Electronic Filing Program and be able to file both the federal return and the state return in one transmission to the IRS Philadelphia Service Center. **The software used to transmit the data must be certified by both the IRS and Kentucky Department of Revenue (KDOR).** KDOR will provide a certification letter to all approved software developers. This certification should accompany the final version of the software. The IRS will acknowledge acceptance of the federal data and receipt of the state data packet. The IRS acts as a conduit through which KDOR will retrieve the state data packet for processing.

KDOR will acknowledge receipt of the state data and then process the taxpayer's return. The transmitter should be able to retrieve the Kentucky acknowledgment within three days from the time acknowledgment is received from the IRS.

Who May Participate

Federal/state electronic filing for full-year resident Kentucky returns is available to all interested parties who have been accepted in the federal electronic filing program. There is no additional application for Kentucky. In 2006, KDOR will accept returns through October 16. Please contact software companies directly if you have questions about availability of state software packages.

State Only Filing

Kentucky is accepting state only returns for the 2005 tax year. *We will not accept state-only returns for part-year residents and nonresidents.* State-only filing is a method to file a state return through the current Fed/State system. The type returns that will be eligible for state only filing are: 1) Previously rejected state e-filed returns and, 2) State returns input separately from a previously filed federal return. In all transmissions, the federal data must be attached.

Please consult your software vendor to determine the availability of state only filing.

Section 5

Acceptance Process

Getting started

In order to participate in the Federal/State Electronic Filing Program, participants must apply to the IRS by submitting Form 8633, Application to Participate in the Electronic Filing Program. This form is available from the IRS. **An additional application form is not necessary for the Kentucky Department of Revenue.**

Federal Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, specifies the application process and requirements for federal participation. The IRS definition of the various categories of electronic filers (electronic return originator, transmitter or software developer) will apply for Kentucky electronic filing purposes under the federal/state program.

KDOR will recognize the federal acceptance process for the 2005 tax period. Acceptance into the federal program is automatic acceptance into the Kentucky electronic filing program. No separate application form is necessary for the Kentucky program. However, KDOR will conduct a suitability check on the applicants into the Federal/State Electronic Filing Program and will notify any applicant who is **ineligible** to participate.

KDOR will use the same EFIN and ETIN assigned by the IRS for the Federal/State Electronic Filing Program.

Software developers are required to test with KDOR prior to distribution of software. Use of untested software could cause Kentucky returns to be rejected.

In addition to software developers, transmitters will be allowed to test with KDOR to ensure they have the ability to retrieve the Kentucky acknowledgment records. Tax preparers and EROs also have the option to test with KDOR but this is not required.

Test material and instructions are posted on the internet at <http://revenue.ky.gov> or can be obtained by contacting:

Kentucky Department of Revenue
Primary Contact
Marcus Deaton II
(502) 564-4581 Ext, 4621
Marcus.Deaton@ky.gov

Secondary Contact
Peggy Barber
(502) 564-4581 Ext.4672
Peggy.Barber@ky.gov

Section 6

Filing an Electronic Return

Composition of an Electronic Return

An electronic return consists of data transmitted electronically to KDOR, using the IRS as a conduit.

Electronic Portion of Return

The following forms and schedules can be transmitted electronically and are considered the electronic portion of the return:

1. All federal individual income tax forms and schedules allowed by IRS Publication 1345, Section 18.
2. Form 740, Kentucky Individual Income Tax Return.*
3. Schedule A, Kentucky Itemized Deductions.
4. Schedule M, Kentucky Federal Adjusted Gross Income Modifications.
5. Schedule P, Kentucky Pension Income Exclusion.
6. Form 2210-K, Underpayment of Estimated Tax by Individuals.
7. Schedule J, Kentucky Farm Income Averaging.
8. Form 8582K, Kentucky Passive Activity Loss Limitations.
9. Form 8863K, Kentucky Education Tuition Tax Credit.
10. Form 4972K – Kentucky Tax on Lump-Sum Distributions
11. Tax Paid to Other State (Worksheet A)
12. Nonrefundable Kentucky Corporation Tax Credit (Worksheet B) |

**New forms to
be
electronically
transmitted!**

*740-EZ is filed through the Form 740 format.

All software packages should support all forms available for Kentucky electronic filing. Check your software package for forms availability before submitting returns. Any electronic tax returns submitted without all required forms will be rejected. (See Appendix A for rejection codes.)

Non-electronic Portion of Return

The non-electronic portion of the return consists of the following:

1. Form 8453-K, Kentucky Individual Income Tax Declaration for Electronic Filing.
2. State copies of Form W-2, W-2G or 1099-R which would normally be attached to a paper return.
3. Supporting schedules and documents requiring signatures. (Neither the federal nor state return is required to be attached to Form 8453-K since they are sent electronically. However, if someone other than the transmitter prepared the return, the preparer should sign Form 8453-K or the transmitter should attach the paper return with the preparer's original signature to the Form 8453-K).
4. Any other informational documents that the taxpayer voluntarily includes with the return as supporting material.

Guidelines for Form 8453-K

Electronic Return Originators (EROs) are not required to mail Form 8453-K to KDOR. The KDOR has established the following guidelines for Form 8453-K:

- Fed/State E-filed returns with a federal PIN – For returns filed via this method, an 8453-K is **not** required. The use of the federal PIN meets signature requirements for the Kentucky return.
- Fed/State E-filed returns without a federal PIN – For returns filed via this method, an 8453-K is required. **This document does not need to be mailed to KDOR.** EROs must retain them for a period of three years. State copies of the wage statements, supporting schedules, documents requiring signatures and other informational documents should be attached to the 8453-K and be retained by the ERO for a period of three years.
- Online Filing – For returns filed via this method, an 8453-K is required. This document does **not** need to be mailed to KDOR. Taxpayers must retain the form for a period of three years.

Exclusions from Electronic Filing

In addition to the returns excluded from federal electronic filing listed in Publication 1345 for tax year 2005 (2006 filing season), the following are specific Kentucky forms which are also excluded:

1. Form 740-X, Amended Kentucky Individual Income Tax Return
2. Form 740-XP, Prior Year Amended Kentucky Individual Income Tax Return
3. Prior Year Returns
4. Form 740-NP, Nonresident or Part-Year Resident Income Tax Return
5. Form 740-NP-R, Nonresident--Reciprocal State
6. Any partnership, corporate or fiduciary tax return
7. Fiscal Year Returns
8. Injured Spouse Declaration

Section 7

Transmitting the Kentucky Electronic Return

Kentucky returns included in the Federal/State Electronic Filing Program will be transmitted to the IRS Philadelphia Service Center, along with the federal return. Transmissions shall be accomplished according to IRS procedures.

Kentucky will again accept state-only returns for the 2005 tax year. We will not accept state-only returns for part-year residents and nonresidents. Please consult your software vendor to determine the availability of state only filing.

Once the IRS has provided an acknowledgment to the ERO, the state data segment will be made available to KDOR for retrieval within 24 hours. **KDOR will not receive any state data associated with a rejected federal return.**

The IRS acknowledges only that it received the state data for both Fed/State and state only transmissions. The IRS acknowledgment is not an indication that the KDOR has “accepted” your state return. You must receive the Kentucky acknowledgment to be assured your state return has been accepted. Contact KDOR if you receive a federal acknowledgment but no state acknowledgment within three days from the time acknowledgment is received from the IRS.

Acknowledgment of the Kentucky Return

The Kentucky acknowledgment system is designed to inform transmitters that the Kentucky return has been received and either accepted or rejected by the KDOR. (Rejection codes are included in Appendix A.) The acknowledgement system will provide codes of “A” for accepted, “R” for rejected and “D” for a duplicate return. The acknowledgement code of “A” means that the return has been accepted for processing by the Department, not necessarily that the return is error free. Upon receipt of the Kentucky return from the IRS, KDOR will generate an acknowledgment record and post the record for retrieval by transmitters.

Kentucky’s acknowledgement system is now being handled through the IRS. We will be using the same format that is described by the IRS for all acknowledgements.

Transmitters are encouraged to retrieve their acknowledgment records regularly. Transmitters should notify their EROs of the return’s acceptance within two working days after obtaining the acknowledgment. EROs are instructed to wait until they receive the acknowledgment record before the corresponding Form 8453-K is held for the retention period. (see Section 8).

NOTE: All transmitters will be allowed to perform state testing to ensure they can access and retrieve the state acknowledgment record.

Non-receipt of Kentucky Acknowledgment Record

If any of the following error conditions occur, please follow the resolution process indicated below.

1. Kentucky acknowledgment records are received for some, but not all returns filed on a given date.
2. IRS acknowledgment records were received more than four working days ago and no Kentucky acknowledgment records have been received.
3. A transmission day is skipped (i.e., received acknowledgment records for a Monday and a Wednesday but none for a Tuesday transmission).

In all instances, be sure you have received an IRS acknowledgment record before you contact the Department of Revenue.

Resolution Process

To check the status of a Kentucky acknowledgment record, EROs must contact KDOR's Electronic Filing Helpdesk at (502) 564-5370. Have the primary Social Security number and date of transmission available when making the call.

In some instances, you may be required to file a paper return to correct problems, if the return is not eligible for state-only filing. Paper returns to replace rejected electronic returns should be sent to:

Kentucky Department of Revenue
Electronic Filing
P.O. Box 1231, Station 29
Frankfort, KY 40602-1231

The paper return should include a printout of the return (including a copy of the federal return and all supporting schedules) and copies of all Forms W-2, W-2G and 1099-R. If the paper replacement is not sent to this address, it cannot be guaranteed priority processing.

Changes to Electronic Returns

After electronic returns are transmitted, they cannot be recalled or intercepted in process. If the electronic filer or taxpayer wishes to change any entries after a return has been accepted, an amended return (Form 740-X) must be filed through the normal paper filing process. No action should be taken to change the computation between the date transmitted and the date the KDOR acknowledges the return.

Section 8

Form 8453-K

Kentucky Individual Income Tax Declaration for Electronic Filing

Form 8453-K is the signature portion of the return. It must be completed and signed, if required, by all appropriate parties before the return is transmitted electronically.

Form 8453-K:

1. Authenticates the return;
2. Authorizes the ERO to file the return electronically on behalf of the taxpayer; and
3. Authorizes KDOR to inform the ERO whether a taxpayer's return has been accepted.

Returns requiring forms or schedules excluded in Section 6 must be filed in paper format. Electronic filers must not use Form 8453-K to submit forms or schedules which are excluded (see Section 6) from electronic filing.

Form 8453-K authorizes the KDOR to discuss tax return information with the ERO.

Use only the official Form 8453-K or an approved substitute form that duplicates the official form in format, language, content and size. Photocopies are acceptable.

The following is the sequence of events in the handling of Form 8453-K:

1. An ERO prepares the return and computes the taxes based on the information the taxpayer provides or accepts an already prepared tax return for the purpose of transmitting it electronically.
2. After the return has been prepared and before it is transmitted, the taxpayer must verify the information on the return and sign Form 8453-K. The signature of both taxpayers is required on returns filed "Married, filing joint return" or "Married, filing separately on a combined return."
3. A copy of the prepared return must be provided to the taxpayer.

Form 8453-K is part of the electronic tax return for the purposes of taxpayer verification and signature. See Section 6 for details on when to use the 8453-K. A blank Form 8453-K is the same as a blank tax return. Practitioners are prohibited

from allowing taxpayers to sign a blank tax return. However, it is permissible to have the taxpayer review the completed tax return on the display terminal. The taxpayer should also review the completed Form 8453-K before signing it.

The DCN assigned to the taxpayer's federal return will also be used for the Kentucky return. This DCN should be entered on Form 8453-K. If the electronic return is rejected by the IRS and a new DCN is assigned, you must use the DCN accepted by the IRS on the Kentucky electronic return and Form 8453-K.

Following the new guidelines for Form 8453-K (see Section 6), the ERO is required to retain this form for a period of three years.

If requested by the KDOR, the ERO must provide the department with a copy of the Form 8453-K or a new Form 8453-K within five days of the department's request for the form.

Section 9

Refund Options for Electronic Filers

Taxpayers may elect to have their overpayments applied to their next tax year's estimated tax, mailed to them in the form of a refund check, or deposited directly into a bank account. If direct deposit is elected, the same verification procedures outlined in IRS Publication 1345 must be followed.

Taxpayers' Kentucky refunds do not have to be direct deposited in the same bank account as their federal refunds.

KDOR's acknowledgment of the electronic return will not indicate whether the refund will be direct deposited.

Some items which could cause KDOR to deny a direct deposit request:

- All/part of the overpayment is applied to the taxpayer's delinquent Kentucky taxes.
- All/part of the overpayment is applied to the taxpayer's debts to other state agencies and/or the IRS.
- The amount of the refund is adjusted by the tax processing system.
- An invalid account number or bank routing number is submitted.

The taxpayer may determine the reason for the conversion by calling the Department of Revenue's Taxpayer Assistance Section at (502) 564-4581 between 8:00 a.m. and 4:30 p.m., Monday through Friday, Eastern Standard Time.

Section 10

Refund Delays

It is anticipated that refunds from Kentucky returns filed in the Federal/State Electronic Filing Program will be issued within two weeks. The average amount of time to issue a refund during the 2005 processing year was 7 to 10 days. However, the following conditions may delay refunds and/or change refund amounts on electronically filed returns:

1. The taxpayer owes delinquent Kentucky taxes.
2. The taxpayer owes a debt to another state agency or to the IRS.
3. The estimated tax payments claimed on the return do not match the estimated tax payments recorded on KDOR's estimated tax file.
4. The refund amount is adjusted when the electronic return is processed.
5. Bad addresses. Common problems are addresses containing a rural route. While the KDOR recognizes that some rural routes still exist in Kentucky, most rural routes have been eliminated and assigned a street name with a house number. Preparers should verify that the rural route is still a valid address before utilizing this address on the taxpayer's return. Another common problem is an address that contains both a post office box number and a street address. **Please enter the street name and house number on the first address line and enter the post office box number on the second address line.**

***Important
address
information***

If individuals need to contact the Department of Revenue regarding their Kentucky refund, they should be prepared to give their Social Security number and whole dollar amount of the refund. These taxpayers should contact KDOR's ARTIS line (502) 564-1600.

Section 11

Payment of Balance Due Amounts

The taxpayer is responsible for paying the amount due the KDOR by April 17, 2006 to avoid penalties and interest. Details of each payment option are listed below.

1. Kentucky will again be accepting direct debit payments on tax due returns. The payment **must** be the amount due as indicated on the return. A date up to April 17, 2006 can be elected for the payment to be debited from the specified account. After April 17, the payment will be debited when the return has completed processing. The direct debit account information can be found on the Form 8453-K.

Note: Please allow up to two weeks for your debit payment to be withdrawn from your account. Payments with a withdrawal date of April 17, 2006, will be considered timely when processed.

2. The taxpayer may submit payment by mailing Form 740-V with their payment. Form 740-V is a payment coupon made available to EROs. If the ERO's software package has the capability of printing a document in the same format as the Form 740-V, this can also be used. **A paper copy of the electronic return should not be submitted with the 740-V. This delays processing of the electronic voucher and payment.**

Payments made with Form 740-V should be mailed to:

Kentucky Department of Revenue
Frankfort, KY 40619-0008

3. Taxpayers can also pay their 2005 Kentucky individual income tax by MasterCard or Visa credit card through April 17, 2006. Access the Department of Revenue's home page at (<http://revenue.ky.gov>) to make credit card payments over the Internet. Click on the *KY E-Tax* logo then click on *E-Payments*. If the taxpayer does not have access to the Internet, you may call the KDOR at (502) 564-4581.

A 'tax due notice' will not be sent to the taxpayer prior to the April 17 filing deadline. The taxpayer should submit payment using one of the payment options listed above prior to April 17, 2006 to avoid penalties and interest.

Section 12

What Electronic Filers Must Provide to the Taxpayer

The ERO must furnish the taxpayer with documentation of all completed Kentucky forms and schedules filed for the taxpayer. This material should be provided to taxpayers at the time they sign Form 8453-K or use one of the electronic pin signature methods.

The ERO must also provide the taxpayer with a copy of the following material filed with KDOR:

1. The completed Form 8453-K, Kentucky Individual Income Tax Declaration for Electronic Filing, if required.
2. Other documents containing required signatures.
3. Any other documents which are not Kentucky forms or schedules.

In addition, the ERO should advise the taxpayer to retain copies of the following material:

1. Form W-2, W-2G or 1099-R.
2. Any other documents, not required by KDOR, which the taxpayer voluntarily includes as supporting material.
3. The signed Form 8453-K, if required.

Immediately upon learning that a return was not accepted by KDOR, the ERO must advise the taxpayer that their return was not accepted, **(if the return is not eligible for state-only filing)** and that a paper return must be filed. The taxpayer should allow up to twelve weeks for any Kentucky refund to be issued on a paper return.

If an electronically filed return was acknowledged as accepted by the KDOR, the ERO should advise the taxpayer to wait three weeks from the acknowledgment date before making an inquiry about his/her refund. The taxpayer may call KDOR's ARTIS line (502) 564-1600 for information about his or her refund. They should be prepared to give their Social Security number and whole dollar amount of the expected refund.

It is the responsibility of the electronic filer to follow all guidelines in IRS Publication 1345.

Section 13

Penalties

Penalties for Disclosure or Use of Information

Guidelines outlined in IRS Revenue Procedure 94-63 and 94-63A should be followed as well as Kentucky Revised Statute 131.190.

Penalties for Late Filing, Late Payment and Fraudulent Returns

This provision provides due notice that all additions to tax, penalties, and criminal provisions applicable to paper filers are also applicable to electronic filers. Specifically, penalties and interest for late filing and late payment will be assessed.

Penalties will be assessed against any person filing an incomplete or misleading return. Additionally, any person who willfully subscribes or presents a fraudulent return will be subject to prosecution and penalties. Other criminal provisions will be applicable to the extent that a person attempts to commit forgery and falsify signatures on any electronic filing form, check or direct deposit form.

Section 14

Taxpayer Assistance and Refund Inquiry

Taxpayers may confirm acknowledgment of their Kentucky returns with their practitioner or transmitter and are advised to wait three weeks from the transmission date before calling or writing KDOR to inquire about their refund status.

If a taxpayer and/or spouse owes money to KDOR, other state agency, IRS, etc., the amount may be deducted from the refund. This debt will delay processing of the taxpayer's refund because all claims against the refund must be resolved before a refund check can be processed. Electronically filed returns experiencing errors in KDOR income tax system will be given first priority for resolution.

For Taxpayers

KDOR has an automated refund and tax information system, ARTIS that a taxpayer can call to get the status of their refund. The taxpayer must provide the primary Social Security number listed first on the tax return and the amount of the refund expressed in whole dollars.

ARTIS Line: 1-502-564-1600

Taxpayers needing assistance to resolve any adjustments on returns or problems after processing should contact the Taxpayer Assistance Section at (502) 564-4581.

For Transmitters, Preparers and EROs

The KDOR will operate a helpdesk for electronic transmitters/preparers who are experiencing problems. The operating hours will be Monday through Friday, 8:30 a.m. to 4:30 p.m., except for holidays. The helpdesk number, (502) 564-5370, is to be used by electronic transmitter/preparers only.

APPENDIX A

Rejection Codes and Explanations

Form 740 Errors

0001	Kentucky return must begin with Federal Adjusted Gross Income
0002	Invalid Software developer code.
0003	Invalid EFIN.
0004	Duplicate Return. Electronic Return already received.
0005	Error in Federal AGI on married filing separate return.
0006	Federal Return required for State Only returns.
0007	Nonresidents and part-year residents are not eligible for electronic filing.
0008	Unformatted header records incomplete. Software format issue.
0009	Unformatted record byte count incorrect.
0010	Invalid debit routing number.
0011	Invalid debit indicator. Indicator should be "2" for Direct Debit option.
0012	Invalid debit amount. Debit payment amount must equal amount due on return.
0013	Invalid debit date. Debit payment cannot be warehoused after April 15th.
0014	Invalid debit date. Invalid date format in file.
0015	Incomplete debit/deposit account type. (Checking / Savings account indicator blank)
0016	Primary social security number missing.
0017	Spouse social security number missing.
0018	Name / address fields incomplete.
0019	City / State / ZIP code fields incomplete.
0020	Filing status incomplete.
0021	If filing status 2 is used, each taxpayer must claim his/her own credits.
0022	Invalid Filing Status. Must equal 1, 2, 3 or 4.
0023	Taxpayer political party fund code invalid. Must equal 4, 5 or 6.
0024	Spouse political party fund code invalid. Must equal 1, 2 or 3 if filing status 2 or 3 is used.
0025	Additions on Form 740, line 6, does not match additions from Schedule M.
0026	Error in calculation on Form 740 Line 7
0027	Subtractions on Form 740, line 8, does not match subtractions from Schedule M.
0028	Error in computing KY AGI, Form 740, line 9.
0029	Error in standard deduction amount claimed.
0030	Itemized deductions claimed does not match the Spouse total on Schedule A.
0031	Itemized deductions claimed does not match the Taxpayer total on Schedule A.
0032	Error in computing taxable income.
0033	Line 13 amount claimed does not match value on Form 4972-K.
0034	Error in tax amount from tax table or computation.
0035	Total Business Incentive Credits does not match total from page 2, Section A, lines 13A or 13B.
0036	Total Personal Tax Credits claimed does not match total from Page 2, Section B, lines 4A or 4B.
0037	Error in computing subtotal tax after business incentive and personal credits, line 18.
0038	Error in computing Total Family Size
0039	Error in computing Family Size Tax Credit
0040	Education Tuition Tax Credit does not match total from Form 8863K.
0041	Error in computing Child and Dependent Care Credit.
0042	Error in computing Income Tax Liability, line 26.
0043	Error in computing Total Tax Liability, page 1, line 28 / page 2, line 29.
0044	Error in amount claimed as Kentucky Income Tax Withheld.
0045	Error in amount claimed as Kentucky Estimated Tax Payments.

0046 Error in amount claimed as Kentucky Refundable Corporate Entity Credit.
0047 Error in computing line 31, total refundable credits.
0048 Error in computing amount overpaid.
0049 Error in computing additional tax due.
0050 If additional tax due is greater than \$500, you are required to file Form 2210K.
0051 Error in computing amount you owe.
0052 Error in computing total Business Incentive Credits, Section A.
0053 Credit for Tax Paid to Other State not eligible for electronic filing without supporting documentation.
0054 Corporate Entity Credit not eligible for electronic filing without supporting documentation.
0055 BIC not eligible for electronic filing.
0056 Worksheet required when claiming tax paid to another state.
0057 Check boxes for personal credits must be checked if applicable.
0058 Error in totaling personal credits.
0059 Incomplete dependent information.
Total dependents claimed on lines 3A and 3B, Section B, Personal Tax Credits does not equal total
0060 med on line 3.
0061 Calculation error in Section B, Personal Tax Credits, lines 4A and/or 4B.

SCHEDULE M Errors

0062 Schedule M required but not submitted with return.
0063 Spouse total additions are mathematically incorrect.
0064 Taxpayer total additions are mathematically incorrect.
0065 Spouse total subtractions are mathematically incorrect.
0066 Taxpayer total subtractions are mathematically incorrect.
0067 Negative values are not allowed on Schedule M.
0068 Pension exclusion amount claimed cannot be verified. Does not match federal return data.
Social security amount claimed as deduction cannot be verified. Does not match federal return data
0069

SCHEDULE A Errors

0070 Schedule A required but not submitted with return.
0071 Percentage field format error.
0072 Error in computing KY AGI on Schedule A.
0073 Total contributions are limited to 50% of KY AGI.
0074 Filing status 2 requires page 2, Schedule A to be completed.
0075 Error in total itemized deduction calculation.

SCHEDULE P Errors

0076 Invalid date format in file.
0077 Schedule P required but not submitted with return.
0078 Invalid Percentage field format on Schedule P.
0079 Error in Schedule P flow to Schedule M.

Form 2210K Errors

0080 Part I calculation error on Form 2210K.
0081 Part I data incomplete on Form 2210K.
0082 Part II calculation error on Form 2210K.
0083 2210K required but not filed.

Form 8863K Errors

0084 8863K required but not filed.
0085 Error in calculating education credit.
0086 Incomplete data on 8863K.

Form 4972K Errors

- 0087 4972K required but not filed.
- 0088 Calculation error on Form 4972K.
- 0089 Incomplete data on Form 4972K.

Credit for Tax Paid to Other State Worksheet

- 0090 Tax Paid to Other State worksheet required but not filed.
- 0091 Incorrect computation on TPOS Worksheet.

Credit for Refundable / Nonrefundable Corporate Entity Credit

- 0092 Corporate Entity Credit worksheet required but not filed.
- 0093 Incorrect computation on Corporate Entity Worksheet.

SCHEDULE J Errors

- 0094 Schedule J required but not filed.
- 0095 Calculation error on Schedule J.
- 0096 Incomplete data on Schedule J.

APPENDIX B

Sample Addresses

Prefix Names:

EXAMPLE:	O'Brien	KEY:	Obrien
	Van Winkle		Vanwinkle
	Mc Donald		McDonald

Street:

EXAMPLE:	120 South Fourth Street
KEY:	120 South Fourth Street

EXAMPLE:	23 East 4th Street
KEY:	23 East 4th Street

EXAMPLE:	2466 1/2 West Highway North
KEY:	2466 West Highway North

EXAMPLE:	C/O George Smith
KEY:	CO George Smith

EXAMPLE:	C/O Jones Mfg Co
KEY:	Jones Mfg Co

EXAMPLE:	C/O 123 Main St
KEY:	123 Main St

EXAMPLE:	12 North St Apt #4
KEY:	12 North St Apt 4

EXAMPLE:	34 Hopewell-Bohon Rd
KEY:	34 Hopewell Bohon Rd

EXAMPLE:	543 Lovelace-Florence Station Rd
KEY:	543 Lovelace Florence Stat Rd

APPENDIX C

Form 8453-K (2005)